

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 AGR-20 INT-08 L-03 H-03 SAJ-01 PA-04 PRS-01

USIA-15 FEAE-00 DRC-01 /197 W
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FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC 7657

INFO AMEMBASSY COPENHAGEN

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY STOCKHOLM

C O N F I D E N T I A L SECTION 1 OF 2 HELSINKI 1423

E.O. 11652: GDS

TAGS: ETRD, BDIS, FI, US

SUBJECT: FINNISH SUPPLIERS TERMINATING US NEWSPRINT

DELIVERY CONTRACTS; ADVERSE PUBLICITY

THREATENS

REF: HELSINKI 1206, JUNE 19, 1974

1. SUMMARY: FINNISH DECISION TO HALT NEWSPRINT
DELIVERY TO US AT END OF 1974, IN APPARENT VIOLATION
OF CONTRACTS RUNNING FOR YEAR OR MORE LONGER, THREATENS
TO DAMAGE FINLAND'S REPUTATION FOR HONORING ITS WORD.
AT LEAST ONE OF 53 US BUYERS CLAIMS HE CAN FIND NO
ALTERNATE SOURCE OF SUPPLY. FINNISH NEWSPRINT INDUSTRY
LEADERS EXPRESS HOPE TO AMBASSADOR THAT "POLITICAL"

COMPLICATIONS CAN BE AVOIDED, BUT AMBASSADOR, WHILE
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EXPRESSING SYMPATHY FOR FINNISH INDUSTRY'S PLIGHT,

POINTED OUT THAT USG CAN'T APPROPRIATELY INTERFERE WITH WHATEVER ACTIONS US FIRMS MIGHT DECIDE TO TAKE TO PROTECT THEIR INTERESTS.

2. MR. JORMA KEINO, MANAGING DIRECTOR AND CHAIRMAN OF BOARD OF FINNISH PAPER MILLS ASSOCIATION (FINNPAP) ON JULY 17 CALLED AGAIN ON AMBASSADOR TO OUTLINE NEW DEVELOPMENTS IN FINANCIAL DIFFICULTIES FACING FINNISH SUPPLIERS OF NEWSPRINT TO US (FINNPAP IS SOLE EXPORTER AND FINNISH PARTY TO EXPORT SALES CONTRACTS). IN MEETING ALSO ATTENDED BY DCM, ECON/COMM COUNSELOR AND COMMERCIAL ATTACHE, KEINO CONFIRMED THAT FINNISH EXPORTS OF NEWSPRINT TO US WOULD CEASE AS OF END OF 1974. AS PREVIOUSLY (REFTEL), HE SAID THAT SOLELY ECONOMIC FACTORS HAD FORCED THIS RELUCTANT DECISION. A LITTLE MORE THAN A YEAR AGO COSTS OF NEWSPRINT PRODUCTION HAD STARTED TO RISE SHARPLY IN EUROPE, WHILE NORTH AMERICAN COSTS AND PRICES HAD LAGGED BEHIND. FINLAND'S COSTS HAD RISEN EVEN MORE THAN THOSE IN NORWAY, SWEDEN AND CENTRAL EUROPE. HOWEVER, NEWSPRINT PRICES IN EUROPE HAD ALSO GONE UP SO THAT NEWSPRINT SALES IN UK NOW ARE AT ABOUT \$353 PER TON, WHILE US EAST COAST PRICE IS AROUND \$225. IN 1973 FINLAND EXPORTED ABOUT 300,000 TONS OF NEWSPRINT TO THE US, ABOUT ONE-QUARTER OF ALL ITS NEWSPRINT EXPORTS.

3. FINNISH CONTRACTS FOR SALES TO US HAVE FOR YEARS BEEN FOR FIXED QUANTITIES AT CIF PRICES IN US DOLLARS TIED TO PRICE OF CANADIAN NEWSPRINT. THIS WAS FINE DURING THE MANY YEARS OF RELATIVE COST AND PRICE STABILITY. NOW BECAUSE OF TWO US DEVALUATIONS, DE FACTO REVALUATION OF FINNISH CURRENCY IN RECENT MONTHS, HIGHER WAGE COSTS, SHARPLY HIGHER ENERGY COSTS, AND HIGHER OCEAN FREIGHT RATES, CONTINUED SALES TO AMERICA HAVE BECOME ECONOMICALLY UNBEARABLE. WHILE FINNS HAD PERHAPS BEEN FOOLISH TO GET CAUGHT IN THIS SQUEEZE, CAUGHT THEY WERE.

4. THE REPRESENTATIVES OF FINNISH NEWSPRINT INDUSTRY WHO VISITED US (REFTEL) CALLED ON MOST OF 53 US CUSTOMERS WHO HAVE CONTRACTS WITH FINNISH SUPPLIERS. MR. KEINO
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SAID SOME WERE SO UNDERSTANDING THAT THEY AGREED IN THE CIRCUMSTANCES TO ACCEPT CONTRACT TERMINATION AT END OF YEAR WITHOUT FURTHER ADO, OTHERS WERE SYMPATHETIC BUT WANTED TO THINK ABOUT IT AND CONSULT AGAIN IN FALL. ANOTHER GROUP POINTED OUT THEY WOULD FACE GREAT DIFFICULTIES IF FINNIS DID NOT CONTINUE DELIVERIES. A SMALLER GROUP THREATENED NOT TO PAY FINNS FOR NEWSPRINT ALREADY DELIVERED IF FINLAND ABROGATED CONTRACTS.

5. AMBASSADOR MENTIONED CALIFORNIA OFFSET PRINTERS, 620 WEST ELK AVE., GLENDALE, CALIFORNIA 91201, WHOSE ASSISTANT CHAIRMAN AND CHIEF EXECUTIVE OFFICER MR. VIRGIL PINKLEY HAD ALREADY SEVERAL TIMES WRITTEN TO HIM ABOUT FINNPAP'S INTENTION TO CEASE DELIVERIES TO HIS COMPANY. HE SAID IT HAS BEEN TOTALLY DEPENDENT ON FINNISH SOURCES FOR NEWSPRINT AND HAS NOT BEEN ABLE TO FIND ALTERNATE SOURCES OF SUPPLY IN TIGHT WEST COAST NEWSPRINT MARKET. MR. KEINO RECALLED THAT AMBASSADOR HAD MENTIONED THIS SPECIFIC CASE TO HIM PREVIOUSLY AND SAID THAT OFFSET PRINTERS WAS FINNPAP'S SMALLEST US CUSTOMER. HE CONCEDED THAT AS RELATIVELY SMALL USER, HITHERTO COMPLETELY TIED TO FINNISH SOURCES, COMPANY WAS NO DOUBT HAVING REAL DIFFICULTY FINDING ALTERNATE SOURCES OF SUPPLY.

6. AMBASSADOR AND DCM STRONGLY MADE POINT THAT FINNPAP COULD NOT IGNORE PUBLIC RELATIONS ASPECT OF CAUSING SUCH A FIRM EXTREME FINANCIAL DIFFICULTY OR EVEN BANKRUPTCY BY ABRUPTLY CANCELLING NEWSPRINT CONTRACT. IN RESPONSE TO QUESTION ABOUT LEGAL BASIS FOR CANCELLING FIRM CONTRACTS WHICH RUN OUT AT END OF 1975 AND EVEN LATER, KEINO WAS VAGUE. HE SAID INDUSTRY HOPES CANCELLATIONS COULD BE ACCOMPLISHED AMICABLY, MENTIONED POSSIBLE FORCE MAJEURE JUSTIFICATION, AND STATED THAT FINNPAP'S LEGAL ADVISORS IN US. SHERMAN AND STERLING IN NEW YORK, FOUND MANY RECENT PRECEDENTS FOR RENEGOTIATING OR CANCELLING CONTRACTS WHICH HAD BECOME UNPROFITABLE FOR SUPPLIERS BECAUSE OF SHARP INCREASES, BEYOND THEIR CONTROL, IN COSTS.

7. MR. KEINO REPEATEDLY EXPRESSED FINNPAP'S STRONG HOPE THAT FINLAND'S DECISION TO CUT OFF NEWSPRINT EXPORTS TO CONFIDENTIAL

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US WOULD NOT BECOME POLITICAL ISSUE. HE SAID FINNPAP HAD HOPED FOR AN "ELEGANT" SOLUTION INVOLVING NO PUBLICITY AT ALL. BECAUSE MR. PINKLEY HAD WRITTEN ABOUT MATTER TO AN OLD FRIEND, PUBLISHER OF HELSINGIN SOANOMAT, ONE OF FINLAND'S LEADING NEWSPAPERS, DECISION HAD RECENTLY BEEN REPORTED IN FINNISH PRESS AND FINNPAP HAD BEEN FORCED TO CONFIRM, IN LOW-KEY "FACTUAL" COMMENT EMPHASIZING THAT ECONOMIC FACTORS WERE ONLY ONES INVOLVED IN DECISION. KEINO SAID THAT IF A US FIRM SUED TO ENFORCE CONTINUED DELIVERIES OR FOR DAMAGES, LEFT-WING PRESS HERE WOULD, WHATEVER LEGAL MERITS OF US BUYER'S CASE, SEE IT AS CASE OF US "BLOOD-SUCKING".

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ACTION EUR-25

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

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TO SECSTATE WASHDC 7658

INFO AMEMBASSY COPENHAGEN

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AMEMBASSY OTTAWA

AMEMBASSY STOCKHOLM

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8. AMBASSADOR SAID WE SHARE HOPE MATTER CAN BE RESOLVED QUIETLY AND TO SATISFACTION ALL PARTIES. WHILE WE UNDERSTAND FINNISH NEWSPRINT INDUSTRY'S PREDICAMENT, WE MUST PROTECT TO EXTENT APPROPRIATE INTERESTS OF US FIRMS WHICH MAY WELL HAVE ENFORCEABLE LEGAL RIGHTS. WE FEEL THAT FIRMS LIKE CALIFORNIA OFFSET DO HAVE SPECIAL DIFFICULTIES AND WONDER WHAT FINNPAP PROPOSES TO DO. HAD MR. PINKLEY, FOR INSTANCE, BEEN OFFERED NEWSPRINT AT A RENEGOTIATED HIGHER PRICE? KEINO IN REPLY SEVERAL TIMES DISMISSED POSSIBILITY OF CALIFORNIA OFFSET PAYING 50PERCENT OR SO MORE FOR FINNISH NEWSPRINT WHEN ITS COMPETITORS WERE USING LOWER-COST NORTH AMERICAN NEWSPRINT. WHEN PRESSED ON WHAT ELSE FINNPAP MIGHT DO, KEINO IMPLIED THAT FINNPAP IS CANVASSING ITS FRIENDS AMONG CANADIAN-US NEWSPRINT PRODUCERS TO FIND REASONABLY-PRICED SUBSTITUTE SOURCE OF SUPPLY FOR CALIFORNIA OFFSET. BECAUSE IT IS WARY OF SETTING PUBLIC PRECEDENT
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IT COULD NOT BE EXPLICIT ABOUT THESE EFFORTS. WE GOT IMPRESSION FINNPAP REPRESENTATIVE IN US WILL BE GETTING IN TOUCH WITH PINKLEY TO ATTEMPT COOL HIM DOWN.

9. KEINO SAID HE ALSO WANTED INFORM AMBASSADOR THAT PINKLEY, FOR DECADES A GREAT FRIEND OF FINLAND, HAS DEVELOPED THEORY THAT FINNISH ACTION IN BREAKING CONTRACTS MUST BE RESULT OF STRONG SOVIET PRESSURE AS OTHERWISE FINNS WOULD NEVER FAIL TO CARRY OUT OBLIGATIONS. HE SUPPOSEDLY INTERESTED MR. ROBERT L. JONES, PRESIDENT OF COPLEY PRESS INC., AND OTHERS IN THIS THEORY, AND A MEETING OF JONES WITH SECRETARY KISSINGER IN NEW YORK NEXT MONDAY TO DISCUSS THIS WAS ARRANGED. HOWEVER, FINNPAP REPRESENTATIVE US LATER SUPPOSEDLY CONVINCED JONES THAT FINNISH DECISION WAS ENTIRELY ON ECONOMIC GROUNDS, THAT THERE IS NO PRESSURE FROM USSR, AND THAT FINLAND HAS NO INTENTION OF INCREASING NEWSPRINT DELIVERIES TO USSR NOR HAS USSR ANY DESIRE PURCHASE MORE NEWS-PRINT. APPOINTMENT WITH SECRETARY NOW THOUGHT BY FINNPAP TO BE CANCELLED.

COMMENT: DURING HOUR-AND-HALF-LONG MEETING KEIMO WAS VERY SERIOUS AND ALMOST EMOTIONAL ABOUT DISADVANTAGES TO FINLAND AND US IF PUBLICITY AND LAWSUITS, ETC., MADE THIS MATTER INTO "POLITICAL" CONTROVERSY. WE MADE IT PLAIN THAT WHILE WE HOPED FOR AN AMICABLE AND QUIET SETTLEMENT AND WOULD CERTAINLY NOT SEEK PUBLICITY, WE COULD NOT PROPERLY AND WOULD NOT SEEK TO INFLUENCE ACTIONS OF US FIRMS AFFECTED. THEY WOULD BE FREE TO PURSUE THEIR BEST INTERESTS AS THEY SAW THEM. BAD PUBLICITY FOR FINLAND SEEMED VERY POSSIBLE, ESPECIALLY IN VIEW OF RECENT WIDELY-PUBLICIZED AND BELIEVED, THOUGH FALSE, CHARGE THAT FINLAND IS DIVERTING WOODPULP FROM WESTERN MARKETS TO USSR. WE BELIEVE THAT OUR FIRM POSITION WITH KEINO INCREASES CHANCE THAT FINNPAP WILL BE MORE HELPFUL TO CALIFORNIA OFFSET AND OTHER MOST-AFFECTED US COMPANIES, EVEN THOUGH THESE STEPS WILL BE KEPT MOST CONFIDENTIAL, SO AS TO AVOID CLAIMS FOR RELIEF FROM ALL 53 BUYERS IN US.
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